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BUILDING PROSPERITY
Nebraska Economic Development Strategy

Nebraska Economic Development Strategy, Building Prosperity, the preliminary report of the Nebraska Department of Economic Development which is excerpted in part below, is undergoing a period of review and revision in preparation for submission to the legislature. The next step in the planning process, which began in June, is a series of meetings open to the public scheduled for December 5 in Lincoln at the Cornhusker Hotel. The Blue Ribbon Panel, a special advisory group to the Department of Economic Development, will meet at 9:00; other agencies and organizations designated in the strategies will meet at 1:30; the general public and nondesignated organizations will meet at 2:30.

The *Nebraska Economic Development Strategy* will be a formal contract for directing the economic future of the state. The advantage of the contract is the value added from concentrating resources on agreed upon outcomes. To be successful, the plan must have enough structure and continuity to direct activity toward the solutions long enough to produce results, but be flexible enough to allow evolution as conditions alter and new knowledge is acquired. Nebraskans must embrace and invest in change to successfully take control of their future.

Part of Nebraska's proposed economic development plan is reprinted in this issue. The report was prepared by the Department of Economic Development, from whom copies are available. This report provides a critical examination of Nebraska's economic development potential. But it provides more than just an analysis of Nebraska's strengths and weaknesses; it suggests actions that may encourage the process of economic development.

Equally important is the climate this plan establishes toward change. If Nebraska is to be successful in its quest for economic development, it will have to make the necessary investment in roads, education, health care delivery systems, and in promoting the state internally and externally. *(See page 5.)*

One of the most important items that must be addressed is Nebraska's self image. Unless Nebraskans have a feeling that exciting things are happening in Nebraska, the development effort will be handicapped.

It is important that Nebraskans put the atmosphere of crisis behind and approach change as an opportunity. The governor, the legislature, the Department of Economic Development, elected and appointed local officials, and other interested citizens must develop and promote a positive view about the opportunities for doing business in Nebraska. From these activities a partnership must be fused between the public and private sectors. An examination of this proposed plan indicates there are three main actors in promoting Nebraska and its economic development: private businesses, state and local government, and the University. Successful states and communities have blended these three elements into partners that support each other's activities. An indication of the type of partnership required is the proposed clearinghouse for securing information on how to do business in Nebraska. No longer will a firm need to go to five different state agencies to secure permission to expand.

Change offers opportunities. Without change we would still be riding horses and using outhouses. The fear of change must be overcome and replaced with a sense of optimism and enhancement of opportunities. This plan offers a first step. Growing competitive pressure in an international marketplace is forcing rural communities across the nation to change. Those who can adapt and capitalize on new opportunities will survive. Those that fail to adapt or are unwilling to adapt will be run over.

DONALD E. PURSELL

NEBRASKA'S ATTRACTIVENESS TO INDUSTRY

Economic Geography Factors

Assuming a selection process whereby firms consciously compare and contrast the characteristics that determine the ability to make a profit in various locations, it is important to assess how the state compares to others in order to understand its capacity to compete for business activity. Although this process varies according to the age and type of firm, a general assessment of Nebraska's standing is useful for revealing strengths that can be exploited and weaknesses that can be mitigated.

The assessment of Nebraska's standing focuses on the traditional economic geography factors of labor, transportation, and energy; the traditional business climate factors of taxes, tax incentives, financial incentives, special services, and other laws that are most important to economic growth occurring from outside; and small and new business factors that are most relevant for growth that occurs from within.

The comparison group is somewhat arbitrarily chosen in a general comparison because the selection of states is not driven by the firm's needs. The states selected for this exercise include Nebraska, Iowa, Kansas, Missouri, Oklahoma, and Colorado. The comparison group selected from the same geographic region offers one reasonable point of comparison.

Labor. The quality of Nebraska's labor force compares very favorably to other states in the regional comparison group. When making comparisons to the above states for a selected recent year, Nebraska exceeded the average for value added, was below the average wage for manufacturing production worker, had below average work stoppages, below average unemployment tax rates, above average worker compensation rate, above average high school graduation rate, and above average scores on ACT tests.

Value added per dollar of production worker payroll for all manufacturing groups in Nebraska was $4.38 in 1982, compared to an average of $4.29 for the comparison states. Average hourly earnings of production workers on manufacturing payroll in Nebraska was $8.93 in 1984, compared to the comparative group average of $9.28. Nebraska is one of the 19 right to work states in the nation and among three in the comparison group. In 1978 Nebraska experienced 14 work stoppages, compared to an average of 44 for the other five states.

Average unemployment tax contribution rate in Nebraska was 1.9 percent in 1985, compared to 2.85 percent for the comparison group. Average worker compensation rate per $100 of payroll in Nebraska was $1.84 in 1985, compared to $2.09 for the comparison group.

The rate of high school graduation in Nebraska was 86.3 percent in 1985, which was above the average of 78.48 percent for the five states as well as the average for the U.S. Nebraska surpassed the comparison group average ACT examination score of 19.08 in 1985 with a score of 19.1, which was also above the national average.

Transportation. Nebraska's central location combined with the important transportation advantages of a major river, strong rail and truck services, air service comparable to other midwest states and a major cross-country interstate highway that passes through the entire width of the state give Nebraska access to major markets across the United States and overseas.

All of Nebraska's communities are connected by a good system of all weather roads--a system that at present contains more than 96,301 miles of hard-surfaced roads. Included in this system is a 475-mile stretch of Interstate Highway 80, which is the only continuous coast to coast (New York to San Francisco) segment of the system. North-south interstate highways that add to Nebraska's market access are I-29, passing along Nebraska's eastern border and I-25, in close proximity to the state's western border. All of these roads make it possible for nearly all communities to have regular motor carrier service with one-day service to a large number of major cities including Chicago, Denver, Kansas City, Minneapolis, and Oklahoma City. Currently, 113 Class I and 24 Class II motor freight carriers operate in the state.

Nebraska is ranked fourth in the nation as a rail center, with the most direct midcontinent route to the west coast at San Francisco passing through the state. Branches from this route terminate in Portland, Spokane, and Seattle, with another branch routed south from Ogden, Utah terminating in Los Angeles. Nebraska's 11 railroad carriers fell below the average number of 16 carriers for states in the comparison group. Three major railways serve the state with approximately 4,900 miles of track. These included Burlington Northern, Chicago and Northwestern, and Union Pacific/Missouri Pacific.

Distributed throughout Nebraska are 111 airports, including commercial and municipal airports. Nineteen commercial airlines serve the state with direct service available to both coasts. The number of carriers in Nebraska is below the average number of 25 carriers for the comparison group of states. Communities receiving commercial airline service include Alliance, Chadron, Columbus, Grand Island, Hastings, Kearney, Lincoln, McCook, Norfolk, North Platte, Omaha, Scottsbluff, and Sidney.

The Missouri River of Nebraska's eastern border has made the state a western terminal for water transportation by barge for ocean traffic from the Atlantic (via the Great Lakes and St. Lawrence Seaway), the Gulf of Mexico, and world markets. Some 35 towing companies and barge owners serve Missouri River terminals.

Energy. Nebraska's electricity and natural gas rates for industry are among the lowest in the nation. In 1983 average monthly industrial electrical costs were $1,482, compared to an average of $1,953 for the comparison group.

In 1984 average cost of industrial natural gas in Nebraska was $3.65 per mm. BTU, compared to an average of $4.40 for the comparison group.

Business Climate Factors

Taxes. The magnitude of Nebraska's tax burden and the relative capacity to fund state tax revenues via personal income compares favorably to the average for the nation, but unfavorably to states in the comparison group. Per capita state taxes for Nebraska in 1984 were $665, compared to $718 for states in the comparison group. State and local taxes per $1,000 of personal income for Nebraska in 1984 were $110, compared to $115 for the nation and $108 for the comparison group.

When comparing the trend in capacity to fund state tax revenues via personal income, Nebraska did not compare favorably to either national or comparison group averages. Over the period 1981-1984, the percent change in state and local taxes per $1,000 of personal income in Nebraska was 6.5 percent, compared to 4.7 percent for the nation and 2.2 percent for the comparison group.

When comparing state and local expenditure growth versus revenue growth, Nebraska revenues increased more quickly then expenditures. However, Nebraska's ratio of .966 was above the average for both the nation at .867 and the comparison group at .934.

In 1984 Nebraska's corporate and sales tax rates were above the average and the personal income tax rate was below the average for the comparison group. Nebraska's net effective corporate income tax rate was 6.56 percent, compared to the average of 5.43 percent; the state sales tax rate was 3.5 percent , compared to the average of 3.42 percent; and the net effective personal income tax rate was 3.25 percent, compared to 4.26 percent.

Tax Incentives. Nebraska offered fewer tax incentives for industry than either the average for states in the comparison group or the U.S. in 1985. In a survey of states conducted by *Site Selection Handbook*, Nebraska offered four of 14 tax incentives, compared to 8.2 for the comparison group and 8.1 for the nation.

Nebraska offers tax exemptions on inventory goods in transit, manufacturing inventories, new equipment, and materials used in manufacturing. At the time of the survey Nebraska offered no tax incentives for job creation, new investment, or research and development; however, by January 1, 1987 Nebraska will begin offering tax incentives for job creation and new investment. Kansas and Missouri offer incentives for the first two categories; Iowa has tax exemptions for research and development.

Financial Incentives. Nebraska makes available few financial assistance options when compared to either the average for the eight-state comparison group or the nation. In 1985 Nebraska provided financial assistance in five of the18 financial categories included in the survey, compared to an average of 8.0 for the comparison group and 9.8 for the U.S.

Types of financial assistance available in Nebraska include a state sponsored development authority, a privately sponsored development credit corporation, a state authority of revenue bond financing, city and county revenue bond financing, and state financial aid for existing plant expansion. Nebraska offers no state loan programs for industrial building construction or equipment and machinery. Iowa, Missouri, and Oklahoma offer assistance in both areas.

Special Services. Nebraska provides an above average number of special services for industrial development with 16 programs in 1985, compared to an average of 14.4 for the comparison group and 15.1 for the nation.

Examples of Nebraska services include state programs to promote research and development and exports, employee training and retraining, federal procurement, and technology advice.

Other Laws. Nebraska has legislated five of the standard industrial classification laws in the *Site Selection Handbook* survey that offer additional advantages to industry, compared to an average of 4.2 for the comparison group and 4.0 for the U.S.

The state offers accelerated depreciation of industrial equipment, a right to work law, a state minimum wage law, a fair employment practice code, and a statewide uniform property tax evaluation law.

Small Business Support. A 1985 survey of the 50 states' efforts to improve the climate for small businesses ranked Nebraska 49th. Colorado was ranked third, Kansas 23rd, Iowa 38th, Missouri 41st, and Oklahoma 43rd.

Nebraska's poorest showing was in state programs for small business finance, such as direct loans, loan guarantees, bond guarantees, and venture capital and state programs for small business support, such as an advisory office, and ombudsman, an advisory council, a legislative committee, a statewide conference, and procurement set asides.

In 1985 Nebraska was below the median for bank loans as a percent of assets and commercial/industrial loans per capita, while above the median for small business investment company finance per capita and business units per 1,000 population. The state had the median of the three *INC.* 100 companies over the period 1979-1984.

Community Leadership, Preparedness, and Quality of Life. Economic development takes place in the communities of the state, each having varying levels of leadership, preparedness or capability to seize economic opportunity, and basic services and amenities that establish a quality of life. While recognizing the differences on the basis of these factors, a reliable methodology does not exist for comparing communities within the state, or Nebraska with other states. Rather it is the presence of leadership, preparedness, and quality of life that are important.

Nebraska communities are unique in character and represent an image of the vitality of their populations. Because they vary in size, resources, and talents, each prepares differently to take advantage of economic opportunities that enhance the quality of life.

Central to community preparedness is the leadership that mobilizes and directs resources to strengthen the local economic base. Successfully prepared communities follow a generally accepted approach to assessing strengths and limitations, setting goals and strategies, and implementing action plans. Through this approach, communities become better able to seize economic opportunities when they arise.

Summary

Nebraska's comparative advantages are strongest for factors that affect the location of relocated or branch plants and weakest in the factors that affect the start-up of new firms. Nebraska's above average value added, below average production worker wage rates, below average work stoppages, below average unemployment tax rates, above average high school graduation rate, and above average scores on ACT tests indicate a high quality labor force that represents an important comparative advantage for the state. Furthermore, Nebraska's transportation network, including its number four ranking for rail service, indicates a significant comparative advantage, as do the below average natural gas and electricity rates.

While Nebraska's business climate does not present barriers to development, it does not offer strongly significant advantages that stimulate new business activity. With corporate and sales tax rates above the average, income tax rates below the average, and percent changes in state and local taxes per $1,000 of personal income above average, Nebraska's tax climate represents neither a comparative advantage nor disadvantage.

Furthermore, Nebraska is below the average in the number of tax incentives and financial asistance options extended to businesses. Special service programs that are important to start-up, expanding, and imported enterprises are provided at an above average rate in Nebraska.

Nebraska has not compared well in the area of small business support, although recent program developments

not apparent in the survey represent important progress. Nebraska's below the median showing for bank loans and commercial loans per capita indicates weaknesses in the access to capital.

The evidence strongly supports the conclusion that Nebraska is strongest in economic geography factors that provide comparative advantages most critical for the importation of firms. However, it is important to consider the important, but limited, potential for creating new wealth, given the relatively few branch plant locations made each year.

The evidence suggests that more progress must be made in small and new business support in order that Nebraska may compare more favorably with other states. Given the greater potential for creating wealth through the start-up of new firms, risking public and private investments seems economically justified.

NEBRASKA'S ECONOMIC DEVELOPMENT PLAN OF ACTION

Economic Goals, Objectives, and Strategies

In attempting to define policy to foster economic development in Nebraska, the Department of Economic Development (DED) has set goals, objectives, and strategies. The goals are the outcomes that, provided intervention, will change the present economic situation and create a new and improved future for Nebraskans. Objectives are the measurable targets indicating accomplishment of the development goals, while strategies identify methods to achieve the objectives and direct the activities of those involved in public and private intervention. The list presented here includes highlights of many plans suggested by the Department of Economic Development.

ENCOURAGE STATEWIDE COOPERATION AND SUPPORT FOR THE DEVELOPMENT OF A STRONGER NEBRASKA ECONOMY

DED shall maintain and present to the legislature a long-term, comprehensive economic development plan for Nebraska. DED shall conduct an ongoing planning process that involves a broad cross section of citizens and members of the private sector. The input from these citizens will be used to update the goals, objectives, and strategies of the DED long-term comprehensive plan.

The state of Nebraska shall establish and maintain a solid and expanding leadership core to accomplish economic development. The knowledge and expertise of various institutions, such as the University of Nebraska, agencies of state government, community development organizations, and private sector organizations will be used to support economic development through efforts coordinated with the Department of Economic Development.

DED will coordinate development activities with other public agencies, the University, and private entities. The governor should direct all agencies of the state to incorporate economic development goals and objectives and develop strategies consistent with their missions. The Department of Economic Development recommends that the governor establish a "Nebraska Means Business" roundtable comprised of representatives from government, industry, and education as a mechanism for identifying and removing development barriers, as well as constructing avenues for existing business expansions and to emphasize publicly Nebraska's strengths.

The legislature shall establish and maintain a committee or committee structure on economic development that considers proposals for the funding, creation of incentives, and other actions related to development. The presidents of the University of Nebraska and other institutions of higher education shall design and implement policies and programs that will accomplish economic development objectives consistent with their missions.

The state of Nebraska should establish and maintain strong research institutions for economic development. The availability of accurate, timely data and analysis of relevant information is essential for development.

DED shall coordinate a program of economic development information management for the state. It will identify two industries in which Nebraska will take the national lead in the 1990s and other industries to target for growth. The University of Nebraska shall identify priorities for research that can have the greatest impact on economic development in Nebraska.

DEVELOP AND MAINTAIN A POSITIVE BUSINESS CLIMATE IN NEBRASKA

The state of Nebraska should support, expand, and create programs to increase the availability of capital for economic development projects. Capital is essential in industrial start-ups and expansion. Recent reports indicate a decreasing availability of debt capital in Nebraska. A 1985 survey by *Inc.* magazine of the 50 states ranked Nebraska 46th in efforts to improve the climate for small business. The Governor's Task Force on Small Business Equity Financing emphasized the importance of initiating efforts to make equity capital more readily available to small business projects.

DED shall support existing private and public financing mechanisms and initiate new mechanisms to meet business development needs. DED shall implement a competitive program directed at attracting foreign investment for development projects in Nebraska. The Research and Development Authority shall develop separate funds for the following: applied research and development, seed capital, and a Small Business Innovative Research matching grant program. The State Investment Council shall increase public pension fund investment for business development purposes. The Nebraska Bankers Association shall encourage and support the creation of a for-profit venture capital fund/organization. Municipalities and counties shall establish local venture or seed capital mechanisms to supplement other private and public development financing tools.

The state of Nebraska shall maintain a competitive incentive posture for industries, including taxes, regulations, and other incentives appropriate for industries that contribute to the state' s economic base. Incentives are not the whole reason a business comes to or stays in a state. Incentives often provide the margin necessary to win a business choosing between two states. Regulations that impose constraints on business activity should be watched.

Removing regulatory barriers without compromising the general public welfare can increase Nebraska's competitive position.

DED shall monitor regional differentials with respect to regulations, business incentives, and other economic development climate issues and make appropriate legislative and programmatic recommendations. DED shall establish a one-stop business development clearinghouse for permits, regulations, financing, taxation, and incentives. The legislature shall prepare and update annually a handbook of state laws that have an impact on economic development.

The state of Nebraska shall increase comprehensive business assistance services to both existing and start-up businesses across the state. Recent data show that business establishments are increasing in number in Nebraska at only about 60 percent of the national average. Nebraska ranked 46th nationally in the number of new corporations between 1980 and 1985. Economic diversification occurs primarily through new business start-ups and locations and through expansion of existing small businesses. Providing assistance is essential for economic growth.

DED shall manage and coordinate the existing and expanded business assistance network to avoid duplication and increase its effectiveness. DED shall expand the program encouraging the start-up and expansion of businesses contributing to the state's economic base. The University of Nebraska shall maintain and develop programs to provide training of international marketing, franchising, and productivity to be delivered through a regional business assistance network. The technical community colleges, colleges, and universities in Nebraska will provide a program to transfer technology to business and industry. The technical community colleges and state colleges shall develop programs to provide management and employee training to be delivered through a regional business assistance network. The Nebraska Business Development Center shall manage programs to provide business planning, marketing and financial planning to be delivered through a regional business assistance network.

The state must work to improve its image as a place of economic opportunity. The Department of Economic Development plans to deliver national and international marketing campaigns promoting Nebraska as a place to do business and as a place to live. The Nebraskaland Foundation and the Society of Nebraska Admirals, in conjunction with DED, will prepare and conduct a 1988 Nebraska Homecoming Celebration that focuses on Nebraskans' pride in living and working in the state. The Nebraska Diplomats also will work to develop a program recognizing Nebraska industry.

The state must try to systematically improve its infrastructure to eliminate any negative locational factors. Adequate streets, highways, water supply, wastewater collection and treatment, airports, and telecommunications are vital to economic development.

DED shall continue its efforts to define and make recommendations concerning the telecommunications infrastructure of Nebraska. The department recommends that the governor implement the recommendations of the infrastructure report *Nebraska Can Work*.

NEBRASKA'S ECONOMY SHOULD BE DIVERSIFIED SO THAT CITIZENS CAN PARTICIPATE MORE FULLY IN DYNAMIC GROWTH, ENJOY A WIDER ARRAY OF CHOICES, AND EXPERIENCE GREATER ECONOMIC STABILITY.

The state should strive to increase business activity through the start-up and importation of industries suited to Nebraska's strengths. The Department of Economic Development will monitor and assess the technology of telecommunications and information. The Research and Development Authority will identify other areas of possible commercialization and the implementation of value added industries in Nebraska. A match marketing program that provides information to Nebraska and non-Nebraska businesses on opportunities to buy inputs from other Nebraska businesses and sell outputs within the state will be established. Foreign reverse investment should be fostered. The legislature will be encouraged to increase state funding to establish Nebraska as a viable location for film and television production.

To meet the needs of new industry, current training programs should be specialized and expanded. Retraining programs should be implemented also. The state must identify new ways to more effectively utilize its institutions of education for long-term economic development and diversification. The University of Nebraska Extension Service should be broadened to assist with outreach to business, industries, and communities as well as agriculture. Faculty and staff members at UN-L and other colleges and universities should be encouraged to use their skills in encouraging business creation or expansion.

NEBRASKA'S CURRENT ECONOMIC BASE, INSTITUTIONAL STRENGTHS, AND NATURAL AND HUMAN RESOURCES SHOULD BE MAINTAINED AND EXPANDED

Exports of Nebraska products should be promoted. To assist in achieving this goal, the University of Nebraska could develop programs to increase the understanding of Nebraska companies in conducting business internationally.

Regional and community based development also must be promoted. State funding, financial programs, and a statewide municipal bond pooling authority can be established to implement this objective. Nebraska's 540 communities can benefit from efforts to expand their economic base beyond agriculture.

Agriculture must be expanded and diversified and marketability of agricultural outputs must be strengthened. The University of Nebraska Food Processing Center is already working to increase food processing and value added processing of present crops; this work should continue. The Nebraska Technical Assistance Center also will strive to foster the application of agricultural engineering technology to industry. State farmers should be encouraged to expand beyond growing to production and processing.

Current Nebraska industries contain growth potential. These industries must be identified and nurtured. Department of Economic Development should continue present efforts to help state businesses expand and diversify. The continuing need to upgrade the quality of Nebraska education, both K-12 and higher, is primary to this

goal. Expanding industry will enhance employment and business opportunities for Nebraskans, including women, minority group members, the elderly, and the physically impaired.

EVERY NEBRASKA COMMUNITY CAN PROMOTE ECONOMIC DEVELOPMENT

Researchers recently asked 1500 firms what factors were important in determining location. The following items were mentioned as absolutely essential or very important by more than 40 percent of the firms surveyed: clean physical environment, availability of technical personnel, absence of drug and alcohol problems in the community, quality public school systems, low traffic congestion, knowledgeable bankers friendly to technology-based firms, positive policies and attitudes of local government toward industry, medical services and facilities, one day service from United Parcel Service and Federal Express, housing for management, nearby airport for passenger traffic, opportunities for consultation with university people. Most of these items are within the control of Nebraska's communities.

ABOUT THIS ISSUE...

This edition of Business in Nebraska marks the Bureau of Business Research's first foray into the desktop publishing arena. Typsetting, layout, and paste-up were done on a Macintosh Plus personal computer and a Laserwriter printer using PageMaker software. Readers' comments are solicited on the layout and contents.

This new format also illustrates the importance of new blood in an organization. One of the newest staff members--Monty Lambie--played an important role in solving technical questions. Since Monty has no history of working with other systems, he was able to move quickly to adopt new methods.

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